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James A. Carder
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MEMORANDUM

TO: Agency Payroll and Personnel Officers
FROM: Division of Accounting
DATE: November 13, 2003
RE: 2003 Calendar Year End Payroll Processing

This memorandum identifies and explains several important Form W-2, payroll, and deduction processing procedures. Please ensure that all appropriate personnel in your organization are aware of these requirements.

1. All 2003 Check Cancellations Due January 5

In order to produce correct 2003 Form W-2s, Wage and Tax Statements, all Tax Year 2003 payroll check cancellations, including the payrolls dated December 31, 2003, must be received by the Division of Accounting on or before January 5, 2004. This includes any Zero Check (positive Gross but \$0 net pay) cancellations. **Failure to submit cancellations timely will cause employee Form W-2s to be overstated, requiring manual corrections.**

2. MOSERS Basic Group Term Life Imputed Wage

Employees have Basic Life Insurance coverage equal to their annual salary in effect on July 1 of the previous year. Federal Tax Regulations require that if employees are provided more than \$50,000 of life insurance coverage, additional imputed taxable income must be reported and OASDI/Medicare taxes withheld.

MOSERS will send an update of enrollees to the Office of Administration and we will update the SAMII HR system in January. Since imputed wage is based upon the salary rate of the preceding July for existing employees, any increases to salary during the year do not need to be updated for imputed wages. Any **new** employees that meet the \$50,000 wage criteria must have the GTLIF added at the agency level at the time of hire. For questions about the IRS rates and the GTLIF please see the SAM II HR web site at

<http://www.state.mo.us/samii/hr/bulletins/jdlifeinsurance.pdf>.

3. MOSERS Optional Life Insurance

Employee optional life insurance premiums for January 2004 may be adjusted due to an increase/decrease in the premium rate; a change in annual salary; a change in age bracket; a change in coverage election; or a combination of these reasons.

Changes to the optional life insurance premiums will be automatically adjusted in SAM II HR from information received from MOSERS. Since these premiums are paid concurrent with the pay period, the employees' January 31, 2004 paycheck will reflect the new premium amount. After-tax premiums, and premium changes for dependent spouse coverage will be automatically adjusted. Premiums for dependent child(ren) coverage will not change. Agencies will need to enter deduction transactions for employees who add or cancel dependent child(ren) coverage.

4. Missouri Consolidated Health Care Plan (Health, Dental, Vision)

Employees enrolled in the MCHCP health, dental, and vision plans for 2004 will have their premium changes automatically adjusted in SAM II HR by the Office of Administration from information received from MCHCP and the cafeteria plan. Since health insurance premiums are paid in advance, the December 31, 2003 paychecks will reflect the new health insurance premium amount for January 2004 coverage.

Employees enrolled in the Health Care deduction under the Cafeteria Plan in 2003 will be automatically enrolled in the Health Care deduction for Cafeteria Plan for the December 31, 2003 deduction. Employees enrolled in the Health Care deduction for 2004 will be automatically enrolled in the appropriate Cafeteria or non-Cafeteria Plan code. A report can be requested from the Cafeteria Plan (ASI) named the "Positive Enrollment Report" for 2004. Agencies must request this report from ASI if you want a total enrollment listing.

Unlike health insurance, MCHCP dental and vision plan premiums are withheld on the January 15, 2004 check in payment of coverage for January 1-15. Therefore, dental and vision premiums will be automatically adjusted by Office of Administration on the January 15, 2004 payroll check for January coverage. The deduction should have an Effective Date of December 16, 2003 with the expiration date of December 15, 2004.

5. Missouri State Employees' Cafeteria Plan

As previously stated, health insurance deductions for 2004 coverage (collected during MCHCP Open Enrollment) will be automatically coded for deduction on the December 31, 2003 paychecks to denote 2003 Cafeteria or Non Cafeteria participation. 2004 Dental and vision plan deductions (collected during MCHCP Open Enrollment) will be automatically loaded for the January 15, 2004 paychecks by OA. Agencies should enroll NEW employees throughout the year with the proper year ending expiration dates to prevent erroneous deductions in December and January. (Health Insurance expires 11/30/04; Dental & Vision expires 12/15/04.)

Plan administrative fees will be automatically loaded for the 2004 plan year to begin with the January 15, 2004 payroll. Any new employees during the remainder of 2003 should be established in SAM II HR with an expiration date of 12/15/03. The Administrative fee is a separate and unlinked deduction code. Any new employees during 2004 that choose to participate in Cafeteria Plan, should have the ADMIN fee established by the agency with an expiration date of 12/15/04.

Employees must re-enroll in the Flex categories for medical and dependent care expenses each plan year. The 2004 deductions will be loaded automatically by OA to begin with the January 15, 2004 payroll.

6. Missouri State Employee Charitable Campaign

Charitable campaign pledge deductions are effective for one plan year only. Agencies do **not** need to enter deduction transactions for employees participating in the charitable campaign program in 2004. For those employees discontinuing participation in 2004, an expiration date of December 15, 2003 must be entered. These changes must be processed by January 7, 2004.

7. Form W-2s -- Distribution/Returns

Agencies should assure the ADDR window is complete for each employee that has earned income in 2003.

Form W-2s are scheduled to be distributed to all state agencies approximately January 26th. W-2s can be mailed in the window envelope designed for mailing checks. Form W-2s returned to your agency by the Post Office should be forwarded to the Division of Accounting.

8. City Earnings Tax Refunds

Refund claims must be filed by employees with the applicable city.

9. When Should a Federal Form W-4 Be Filed?

Employees are required to file a Form W-4, Employee's Withholding Allowance Certificate, on or before the date of employment and when it is determined their tax withholding status has changed.

If an employee in your agency filed a 2003 Form W-4 claiming exemption from withholding, federal regulations state that the "exempt" status is good for one year only and will expire by February 15, 2004. If the employee does not file a new 2004 Form W-4, federal withholding tax must be changed by the agency to be withheld as if the employee is single with zero withholding allowances.

Employees claiming exempt should have 99 allowances entered on the TAX window to accommodate their exempt status.

10. Form W-5, Earned Income Credit Advance Payment Certificate

Form W-5 (Earned Income Credit Advance Payment Certificate) and IRS Publication 596 (Earned Income Credit) explain in detail who can take the Earned Income Tax Credit (EIC).

Employees can claim the EIC on their Form 1040 or 1040A or, if eligible for advance payments, they can choose to receive the credit during the year with their pay. To get advance payments, they will have to complete Form W-5, Earned Income Credit Advance Payment Certificate, which is available from the IRS. Eligible employees who do not file Form W-5 will not receive advance payments, but they can still get the full benefit of the EIC on their annual tax returns.

Under federal regulations, each qualified employee requesting advance EIC payments must complete a new Form W-5 each calendar year. A Form W-5 used for 2003 may not be used for calendar year 2004.

Refer to Policies and Procedures, Employee Benefits Deduction, Entering/Modifying Income Tax Deductions. There is no automatic expiration of EIC. Agencies must Effective Date the EIC information on the Employee Tax Parameters (TAX) window. A listing of 2003 EIC recipients can be obtained from the Data Warehouse.

11. Standard Mileage Rate for Reporting Automobile Commuting Use Value

For 2003, the standard mileage deduction rate set by IRS for the business use of an automobile is 36 cents per mile. Those employees using the vehicle cents-per-mile method of reporting auto fringe benefits must have their 2003 automobile commute value calculated using the 36 cents per mile rate. The 2004 standard mileage deduction rate set by the IRS for business use of an automobile is 37.5 cents.

A separate memo regarding Reporting State Vehicle Use will be published in January 2004.

Refer to SAM II/HR Imputed Wages (Agency) L3, Automobile Commute Procedures for instructions on how to report auto commute use values.

12. How to Order Forms

State agencies may procure 2004 Federal Forms W-4 and W-5 by contacting a local IRS office or by calling the IRS toll free at 800-829-3676. Forms will be shipped free of charge. They will also be available on their web site at www.irs.gov

The MO W-4, Missouri Withholding Allowance Certificate, may be ordered by calling the Missouri Department of Revenue at 800-877-6881. It will also be available on their web site at www.dor.state.mo.us/tax/forms/, or by writing to:

Missouri Department of Revenue
Division of Taxation and Collection
P.O. Box 3022
Jefferson City, MO 65105-3022

13. Copies of Federal Form W-4 to OA

Copies of all Federal Form W-4s received during a quarter, and claiming more than 10 withholding allowances, or claiming exemption from withholding when wages are expected to exceed \$200 per week at the time a W-4 is filed, must be forwarded by the Division of Accounting to the IRS at the end of each quarter. All agencies are requested to submit **copies** of Federal Form W-4s claiming over 10 exemptions or exempt status to the Division of Accounting, Payroll Unit no later than the 10th day of the month following the end of each quarter.

Blocks 8, 9, and 10 of all Federal Form W-4s that are required to be forwarded to the IRS, must be completed by the employing agency as follows:

- Block 8 - State of Missouri
(Agency Name and Address)
- Block 9 - Enter employee's agency/org/pay location code
- Block 10 - Enter 44-6000987

14. Copies of MO W-4 to Missouri Department of Revenue - New Hire Reporting

A copy of Form MO W-4, Missouri Employee's Withholding Allowance Certificate, for each new or rehire employee must be forwarded to the Missouri Department of Revenue, P.O. Box 3340, Jefferson City, Missouri 65105-3340 within 20 days after the employer hires the employee.

15. 2004 Social Security and Medicare Wage Bases and Tax Rates

The Social Security (OASDI) wage base for 2004 will be \$87,900, an increase over the 2003 base of \$87,000. This increase will become effective for wages paid on or after January 1, 2004. There is no limit on the wages subject to the Medicare tax.

The employer and employee tax rate of 7.65%, which is the combined OASDI rate of 6.2% for wages up to \$87,900 and the Medicare rate of 1.45% for all wages paid will remain the same for 2004.

16. Federal and State Income Tax Withholding Modifications for 2004

For 2004, the federal individual income tax brackets, the federal standard deductions and the federal personal exemption value may be indexed for inflation.

Should this occur, the formula used for calculation of Missouri withholding tax will also be revised effective January 1, 2004, to reflect changes in the annual standard deduction amounts and the withholding allowances.

17. Educational/Tuition Reimbursements

Educational reimbursements under \$5,250 per calendar year, including graduate level courses that began after January 1, 2002, are exempt from reporting. See Policy & Procedure "Deductions & Benefits Agency/Reportable or Non Reportable Fringe

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Benefits/Educational Reimbursements.” Also IRS Publications 508-Tax Benefits for Work-Related Education or 520-Scholarships and Fellowships.

18. Moving Allowances

Agencies should ensure that any moving expense paid in 2003 is entered in SAMII HR before December 20, 2003. For questions on Qualified and Non Qualified Moving Expenses, see IRS Publication 521.

19. Other Imputed Wages

Agencies should ensure that all imputed wages are entered into the system prior to the final payroll run for December 2003. Imputed wages require OASDI/Medicare withholding which should be processed within a paycycle for proper calculations.

If you have questions about the information in this memo, please contact your Agency Help Desk to route questions to the SAM II HR contacts.